



Bushbuckridge Water Board Service Area  
Retail Water Distribution Project  
(USAID Contract No. 674-C-00-00-00065-00)

## **BOHLABELA DISTRICT MUNICIPALITY WATER SERVICES PROVIDER OPTIONS STUDY**

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## **Acronyms**

MM	Municipal Manager
BLM	Bushbuckridge Local Municipality
BWB	Bushbuckridge Water Board
BRWDPSC	Bushbuckridge Retail Water Distribution Project Steering Committee
BDM	Bohlabela District Municipality
DPLG	Department of Provincial and Local Government
DWAF	Department of Water Affairs and Forestry
KAP	Knowledge Attitudes and Practices
MSP	Municipal Services Partnership
NGO	Non Governmental Organisation
NPLGA	Northern Province Local Government Association
O&M	Operations and Maintenance
RWDP	Retail Water Distribution Project
USAID	United States Agency for International Development
WSA	Water Services Authority
WSP	Water Service Provider

## **Executive Summary**

The study area is that of the Bushbuckridge Local Municipality only. The existing water service is provided through a bulk water supply system currently operated by the Bushbuckridge Water Board and a reticulation system currently operated by the Department of Water Affairs in the rural areas while the municipality operates the system in the former R293 towns. It is intended that the reticulation system be transferred to the Bohlabela District Municipality as the Water Service Authority (WSA) for the area. This study considers options for the WSA in deciding on the best Water Services Provider (WSP) to take responsibility for the operations and maintenance of this reticulation system.

The general concerns, which have been expressed of the water services in the area, are:

- ◆ The need for a consistent water supply service in the area
- ◆ The need to provide water to those who are currently not supplied.
- ◆ The preference for yard connections rather than communal standpipes
- ◆ The need to establish a sustainable financial basis for the service.
- ◆ The need to protect and enhance the jobs of the people working on the service.

In addition to the poor condition of the water network, the current delivery approach is not sustainable for three reasons. The first is that it is not the responsibility of a National Department to provide such services - it is local government's responsibility. The second is that there has to be payment from the users of the facilities (over and above the policy on "free" basic water). The third is the lack of a long term guarantee of support grants - the income generated by the users of the system, after allowing for the cost implications of the "free" basic water policy, is unlikely to be sufficient to cover the full operational costs.

The options that have been identified as possibly being appropriate for the Bushbuckridge area of Bohlabela are:

**Water Services Provision by a Department of the District Municipality** - the district municipality would take transfer of the current DWAF staff and facilities as well as staff employed by the local municipality and would appoint additional managerial and technical staff of its own. Financing of the department would come from a combination of a subsidy from DWAF (for the first five years after transfer), from allocation from equitable share and from a gradually increasing amount of cost recovery. The municipality would be responsible for obtaining grants to cover the cost of all new construction work.

**Local Municipality as Water Services Provider** - the district municipality would retain its responsibilities as WSA and it could contract with the local municipality to provide the WSP function. All the staff currently used to provide the service would be transferred to the local municipality who would also supplement that staff to create an effective organisation. The WSA would remain responsible for fixing tariffs based on a budget

prepared by the WSP. The full responsibility for maintaining and operating the system is then that of the WSP. The WSA would remain responsible, however, for obtaining funding for capital expenditure required for expansion, upgrade and reconstruction of the system.

**Partnership between District and Local Municipality** - the district and local municipalities would create water and sanitation service partnership. The WSA, would contract with that partnership for it to be responsible for the provision of the service. The partnership would be responsible for all the WSP aspects detailed in the preceding sections. The sending of accounts to consumers would either be done directly by the partnership or could be undertaken by one of the municipalities as part of its wider billing process. In the early stages DWAF would also be a partner, as they would be committing all their existing staff and resources. As the process of transfer took place, however, DWAF would become less involved in the management inputs and the partnership management would take over responsibility. The WSA would retain ownership of all the assets following transfer from DWAF. The partnership would be run by an advisory board comprising nominees from both municipalities and, initially DWAF, in an agreed ratio as well as external members who would be selected for the particular skills that they can add to the board, e.g., legal, financial, technical, etc. In order to strengthen its capacity and to benefit from the knowledge and skills of an established water services operator, the partnership could enter into a management contract with a selected operator either from the public or the private sector. If funding for the specific items which require capital expenditure cannot be obtained through normal funding routes then the use of a BOT (Build – Operate – Transfer) contract, either as part of the management contractor's responsibility, or as a separate contract, could be considered.

**Bushbuckridge Water Board as Water Services Provider** - As the existing bulk water services provider, the water board could be appointed as the retail WSP. BWB is already established, knows the area, knows the bulk supply systems, has its own managerial and support infrastructure and has a vested interest in ensuring that a sustainable income base is established as quickly as possible. The water board is, however, still a new organisation and has not yet had time to indicate that it would be able to add the provision of a reticulation service to its already considerable challenge.

**Management Contract with Public or Private Organisation** - the WSA could enter into a management contract with either a public or a private water organisation to undertake the WSP responsibilities. The organisation would be selected through a procurement process and would be subject to a detailed performance contract. The appointed WSP would be given use of the facilities currently used to provide the water services and the existing DWAF staff would be transferred or seconded to it. It would, however, be required to supplement that staff with experienced operators of its own and it would be required to implement a training and reorganisation programme aimed at developing the existing personnel into an effective team.

**Partnership with NGO/CBO** - this approach would involve setting up a contractual relationship with one or more NGO or community organisation. Such organisations are

not seen as being able to be considered as possible partners for the provision of the service as an independent WSP. They do, however, offer considerable opportunities to be involved as part of the overall approach, either playing a very specific role in one aspect of the service provision, or taking responsibility for local supply systems.

Following deliberations by local stakeholders comprising the District, the local municipalities, DWAF and the Water Board in a workshop held on 5 November 2001 and the experience of the project team, it was concluded that the most viable method for the District Municipality to fulfil its responsibility as the Water Services Authority is to adopt the option of creating a Water Services Provider formed as a partnership between Bohlabela District Municipality and Bushbuckridge Local Municipality and initially DWAF as well.

Following formal acceptance of this recommendation by the potential partners, then the way forward would consist of:

- ♦ Communication of the decision to the Regional office of the Department of Water Affairs with a request for their support and participation.
- ♦ The establishment of a Joint Policy board consisting of the DWAF Regional Chief Director and his Transfer Task Team Manager together with the Executive Mayor and Mayors and Municipal Managers of the Bohlabela District Municipality and the Bushbuckridge Local Municipality respectively
- ♦ Direction to be given by this board to the Project Steering Committee to commence developing the details of the proposed structure including drafting the necessary partnership agreements and establishing the organisational arrangements.
- ♦ RWDP be requested to assist by drafting a business plan for the proposed partnership for consideration by the Joint Policy Committee.

**Bohlabela District Municipality**

**Options Study for the Choice of a Water Services Provider  
for the Bushbuckridge Municipal Area**



*This study is limited to the area of the Bushbuckridge Local Municipality. While much of the comment contained in this report is also applicable to the Maruleng Municipal area, it is considered important that an equivalent assessment be undertaken before finalising any decision in respect of the selection of a WSP option for that area.*

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## **1 CURRENT STATUS OF SERVICE DELIVERY**

The existing service is provided through a bulk water supply system currently operated by the Bushbuckridge Water Board and a reticulation system currently operated by the Department of Water Affairs. It is intended that the reticulation system will be transferred to the Bohlabela District Municipality as the Water Service Authority (WSA) for the area. This study will consider options for the WSA to appoint a Water Services Provider (WSP) to take responsibility for the operations and maintenance of this reticulation system as well as, possibly, taking responsibility for raising capital finance to expand and improve the service.

### **1.1 Physical description of network assets**

As this study is limited to the reticulation aspects of the system only, the fixed assets consist of all distribution pipes, valves, meters and communal taps located between the outlet of a reservoir and the supply point to a community or in to individual properties. Movable assets would include vehicles used to service the area as well as all related tools and equipment including any office equipment.

### **1.2 Condition of network**

As a general statement the network is in a poor condition with large numbers of unauthorized connections having been made thus creating high levels of losses. Communal standpipes are often damaged. Many areas do not receive water for several days at a time and the carrying of water in containers is a common sight.

### **1.3 Water balance**

The design capacity of treatment works supplying the area is in the order of 12,000 MI per year. In addition there are numerous boreholes and other untreated sources, which have the capacity to supply some 6MI per year. Of the treated water supplied it is estimated that only some 50% of the quantity produced actually reaches consumers, the balance being lost at various points in the system.

### **1.4 Demographic and income profile**

It is generally agreed that the estimated population of the area is in the order 600,000 representing 100,000 households. The 1996 census information (adjusted to the current year) shows that the income profile is extremely low with around half of the households having a monthly income of less than R1, 000.00

### **1.5 Growth scenario in population and service demand**

Population growth figures have been estimated in the Interim Integrated Development Plan as being projected between 2.4% and 4%. While national figures are starting to indicate that the effects of HIV and Aids is reducing the national population growth figure to 0%, a conservative figure of 2.5% growth in water demand has been assumed for the area.

### **1.6 Full cost of the service provision**

As the cost of the service is currently being borne by DWAF, there are no figures available as to the current full cost of service provision. Certain work is currently being undertaken to try and assess a realistic costing based on the existing situation.

### **1.7 Capital sources for rehabilitation and expansion**

The major source of capital for rehabilitation and expansion is currently DWAF. This is effectively grant funding as no recovery of costs is being made. Certain work is also undertaken using specific grant funding sources such as the Consolidated Municipal Investment Programme (CMIP).

### **1.8 Tariff structure**

No formal tariff structure currently exists for the WSA area. Certain towns within the area have been charging as low as 30 and 40 cents per kilolitre for certain categories of water user.

### **1.9 Income distribution, affordability and willingness to pay**

A KAP survey is being planned to determine the current status in this regard. Indications from a variety of previous reports, however, are that around half of the families in the area could be considered as indigent but that they are still prepared to pay reasonable amounts for a consistent water service.

### **1.10 Revenues, collection patterns and history**

The only revenues, which have been generated, have been in the previous R293 towns where certain charges were being recovered. Even in these limited areas, a 20% recovery rate was the average achieved. The majority of the households in the area have not been making any payments in respect of municipal rates, services or levies.

### **1.11 Cross subsidies**

In view of the total cost being borne by DWAF, no specific cross-subsidisation exists.

### **1.12 Organisational and human resources structure**

As a new municipality, the organizational and human resource structures of the WSA are still being developed. There is no capacity in respect of water services provision within the district municipality. The local municipality has certain capacity, which it has inherited, from the previous R293 towns in terms of plumbers, etc. The Retail Water Distribution Project, which is jointly funded by DWAF and USAID, however, provides support and capacity to the municipality in the short term and is responsible for providing assistance in respect of the building of capacity within the municipality, and within any WSPs that may be appointed or established, over the period up to May 2004.

### **1.13 Identification of stakeholders**

The stakeholders who are impacted by the water services sector in the Bushbuckridge municipal area are:

- ♦ Bohlabela District Municipality
- ♦ Bushbuckridge Local Municipality
- ♦ Department of Housing and Local Government, Northern Province
- ♦ Department of Water Affairs and Forestry, Northern Province
- ♦ Department of Water Affairs and Forestry, National
- ♦ Department of Provincial and Local Government
- ♦ Northern Province Local Government Association
- ♦ Bushbuckridge Water Board
- ♦ Communities
- ♦ Existing staff represented by NEHAWU, SAMWU and IMATU
- ♦ Department of Health

### **1.14 The concerns of the various stakeholders**

Based on the various workshops which have been held the following is a summary of the general concerns, which participants have expressed:

- ♦ The need for a consistent water supply service in the area with water available on a continuous basis.
- ♦ The need to provide water to those who are currently not supplied.
- ♦ The unacceptability of the communal standpipes – a yard connection should be the minimum level of service.
- ♦ The need to establish a sustainable financial basis for the service.
- ♦ The need to protect and enhance the jobs of the people working on the provision of the service.

## **2 PROFESSIONAL COMMENT ON STATUS QUO**

### **2.1 The technical quality of delivery**

The quality of the water supplied is generally perceived by the communities to be good but this is largely a matter for the water board and not relevant to this study. The major problem is that around half of the population are not able to access a consistent supply of water. Some of the responsibility for this must rest with the water board. Within the reticulation system, however, many of the unauthorized connections have been made on the water board's supply lines. Additionally, the general lack of any measuring and payment for water actually used means that there is no incentive for consumers to reduce their water use when it is available to them. Communal taps have also not been well received by the communities who have then taken matters into their own hands and installed their own connections, often of poor workmanship leading to more water losses. The wastage and/or overuse in some areas where water is available means that inadequate supplies are available to other areas resulting in loss of a water service for long periods.

### **2.2 The adequacy of the equipment required to deliver the service**

An assessment of the equipment and network assets is being undertaken as part of the development of the Water Services Development Plan, which should be available in April 2002. The problems in respect of unauthorized connections have caused a major negative impact on the adequacy of the reticulation system. There are also areas, which are not yet covered by a reticulated service. The adequacy or acceptability of communal tap systems has to be questioned as well as the design principles, which will restrict the allowance of unlimited connections to these systems.

### **2.3 The adequacy of current maintenance and rehabilitation programmes**

Current maintenance and rehabilitation programmes are under funded for the needs of the area. The current procurement and availability of spares cannot react quickly enough to deal with many of the urgent problems encountered

### **2.4 The ability and extent to which staff is equipped to meet the requirements**

Existing maintenance staff (currently employed by DWAF) need help and support in respect of the managing of resources and proper planning of their work. There is a lack of effective management organisation as well as a need for skills development and training to support and uplift the existing staff.

### **2.5 The constraints on the capacity to deliver**

The current constraints on the delivery process can be summarised as follows:

- ◆ Non availability of adequate water supplies at certain supply reservoirs (responsibility of water board)
- ◆ Inadequate infrastructure which has created the environment where people have been forced into making their own connection to the system
- ◆ Poor quality and water losses as a result of unauthorised connections
- ◆ The lack of enforcement of the need to pay for water has led to large amounts of water being wasted or misused
- ◆ Few facilities which allow for the measurement of water actually used by households
- ◆ Management, budgeting, stores and financial control of the operations and maintenance work through the DWAF structures in Pietersburg and Giyani causes slow response times and a lack of “hands on” management
- ◆ The current DWAF staff do not receive adequate support in respect of training, equipment and operational matters
- ◆ Insufficient funds are being made available for refurbishment, major repairs and upgrade work
- ◆ There is no billing and credit control being applied to the area as a whole (limited billing operations take place in certain of the towns)

## **2.6 The affordability and willingness to pay**

The general perception is that there is an acceptance that water services have to be paid for. In this particular area, however, the average household income is very low, the number of business and other higher water users are limited and there are no major water users. With the likely adoption of the national policy of “free” basic water, i.e., providing 6,000 litres per month at no cost to all households who only use water for domestic purposes, the poorest of the poor will be able to receive a basic water supply at no cost to them. The households who use more than the basic supply would be required to pay for all water used above the 6,000-litre amount. This may create problems in the cases where families are using water to support subsistence food production on their own stands.

Due to the lack of meters to measure the quantities supplied to the users, however, consideration has to be given, as a first step, to the introduction of fixed charges. While this will not control or reduce the wastage or misuse of water, it will at least create a cash flow, which can be used to support the continued provision of the service.

## **2.7 The current design standards and delivery approach**

The design of the reticulation system outside of the formal (R293) towns was based on the RDP standard of standpipes to supply 25 litres per person per day. While this standard would generally allow for a limited number of households to be able to connect directly to the reticulation system, it is not adequate to allow every household to have its own connection.

The current delivery approach is not sustainable for various reasons. The first of these

is that it is not the responsibility of the national department to provide such services. It is critical that the local government structures be responsible for the provision of this service. The second factor is that there has to be payment from the users of the facilities (over and above the policy on “free” basic water). For this factor to be sustainable there has to be the ability to measure the water supplied, to send out correct accounts for the amounts due and a credit control system that ensures payment and takes action against defaulters. The third reason affecting sustainability refers to commitments in respect of support grants. The socio economic conditions in this area are such that income generated by the users of the system, after allowing for the cost implications of the “free” basic water policy, will be insufficient to cover the operational costs of the system. As discussed earlier there are no large water users and the business use constitutes a very small percentage of the total. To create a sustainable system therefore requires the commitment from Government to provide annual grants (such as the present Equitable Share and CMIP grants) on an on-going basis, not only to support the operational costs but to also provide for the necessary capital expenditure to carry out refurbishment, upgrades and new expansion projects.

## 2.8 Options for and acceptability of differing levels of service provision

Certain communities are currently served from boreholes. It is considered that, providing supplies are adequate, the water produced complies with hygiene standards, and effective storage and reticulation systems are in place, this should be continued and supported. It would then be appropriate for charges, which are relevant to the costs of such systems to be applied to the users of these systems.

In areas, which are supplied with treated water, a range of service levels could be offered to users. While the unit tariffs for the supply of water would be similar, the different levels of service would allow users to decide how much they can afford to pay for water. Typical different levels applicable in this area could be:

- ♦ Service Level A: Communal standpipes
- ♦ Service Level B: Yard connection – one tap situated in the yard with a restriction on the quantity of water supplied.
- ♦ Service Level C: House connections – a number of taps at the required points inside the house

Should such an approach be adopted, the conditions applicable to each level could typically be the following:

<b>Service Level</b>	<b>Estimated Water Consumption per month (kl)</b>	<b>Meter Required for every house</b>	<b>Monthly Payments Required (assuming basic water supplied at no charge)</b>	<b>Estimated Typical Monthly Cost (Future Situation) (Rands)</b>
<b>A</b>	6	No	No	Nil

<b>B</b>	12	No (Initially)	Yes	R 30 (Fixed Charge)
<b>C</b>	25	Yes	Yes	R 100 (Charge based on usage)

Users who wished to go on to the levels B or C (or to formalise their existing unauthorised connection) would also have to pay an initial connection fee, which would be higher for C than for B, and may also have to lodge a deposit with the WSA to guarantee that they will pay their accounts.

(Note: All service zones should have bulk meters installed so that control can be maintained on the total water consumed – this then provides a check on any possible illegal use or leaks in the system.)

## 2.9 The tariff structure, revenue collection and scope for improvement

As stated earlier, there is no realistic tariff structure and only extremely limited attempts at revenue collection. The following steps have already been identified for action in this regard:

- ♦ Promulgate bylaws giving the WSA powers to establish tariffs and to support the revenue collection process.
- ♦ Establish a revenue collection and management unit within the WSA
- ♦ WSA to adopt its “free” basic water policy
- ♦ WSA to adopt its tariff policy
- ♦ WSA to decide on tariffs and to publish these along with conditions of supply
- ♦ Commence the billing and sending accounts to business and institutional users.

Following the above initial steps, the council would then have to apply and enforce whatever fixed and usage charges are decided to be implemented among all the users in the area.

## 2.10 Any technical matters that should be flagged for attention

The technical challenges are clear from the preceding sections. It has to be high priority for the WSA to ensure that a Water Services Manager is appointed who can start to take responsibility for the upliftment of this process of providing such a critical basic service to the people of the area.

## 2.11 The accessibility of capital for expansion and rehabilitation

DWAF is currently providing the majority of capital funding for the system. The allocation of such funding is however decided upon by the New Projects group in the Department. This often results in capital projects being identified, which are not actually top priority if the needs of the operational aspects of the system are taken into account. Considerable additional funding is also required to address the refurbishment and upgrading of existing facilities to allow them to be operated efficiently or for them to

actually do what they were designed for. There are no indications that such funds have, as yet, been made available.

Additional funding is also being provided through CMIP. The selected projects, which receive this funding are, however, often the result of proposals by consultants and do not necessarily reflect the true priority for expenditure in the area.

As the WSA is a newly established District Municipality, which is purely dependent on grant funding for its income, there is no borrowing capacity within this organisation. Other than applying for grant funds – which are not guaranteed to be allocated – the WSA is limited, therefore, in its ability to raise any capital for expansion or rehabilitation. Where such funding is available, however, from DWAF, CMIP or other source, it is critical that the WSA be the organisation which controls its use and which ensures that it is being applied in the best possible manner for the overall benefit of everyone in the area.

## **2.12 The scope for partnerships with other service providers**

The only formal water services provider operating in the area of the WSA at this time is the Bushbuckridge Water Board. Other potential local public sector partners who could be considered in this regard would be the local municipality of Bushbuckridge and the adjoining District Municipality of Ehlanzeni (utilising, in the latter case, the concept of a multi jurisdictional municipal service district as envisaged by the Municipal Systems Act). Potential service providers could also come from public bodies such as the other water boards, NGOs such as AWARD and Mvula Trust, community based organisations who are currently providing services to their own areas and, of course, from a whole range of local and international private sector water companies.



### **3 DESCRIPTION OF STANDARD OPTIONS**

#### **3.1 General description of options**

Municipal Service Partnerships (MSP) for water services can take a variety of possible forms. In one context the options range through Public/Public Partnerships, Public/Private Partnerships, Public/NGO Partnerships and Public/Community Partnerships. Within this context a range of contracting options are available which cover corporatisation, service contracts, lease contracts, management contracts, build-operate-transfer (BOT), concessions and full privatisation. Each one of these contracting options has a range of variations, which can then be applied, or certain features of different options can be combined to provide an appropriate solution.

This section will provide a generic description of each of the standard options and it will be these standard options which will be used to initially test the conditions existing at Bohlabela to give direction on the likely options which will be most suitable for the specific conditions in the study area.

#### **3.2 Partnership Options**

##### **3.2.1 Public/Public**

In this option two or more public organisations team up to provide the necessary services. This could be adjacent local authorities that combine to utilise their resources and available expertise on a more efficient basis thus benefiting from their combined abilities to provide and the synergy effect of developing a critical mass. Alternatively an established and focused organisation such as a water board could use its resource base and depth of skills and knowledge to support a local authority lacking in such resources.

In terms of the Water Services Act and the Framework Agreement between COSATU and SALGA the Public/Public option has to be considered before any other form of partnership can be adopted.

This is an attractive form of partnership, which is being implemented in certain areas. It is particularly appropriate where a water board is active in an area and where the public bodies forming the partnership can contribute resources and skills, which are lacking in the other partners. Where large amounts of capital investment have to be acquired, however, the public/public partnership is at a disadvantage and it has still not been shown that such a partnership can achieve the productivity levels experienced in the private sector.

### **3.2.2 Public/Private**

A public/private partnership is a contract created between the WSA and a selected private contractor to undertake a defined service. The authority would make the assets necessary for the provision of the defined service available to the contractor (but still retain full ownership of these assets) and the contractor would be required to perform to agreed standards. This creates one of the disadvantages of the public/private partnership in that the requirements of the contract have to be clearly defined and changes to these requirements lead to a renegotiation of the contract. The private sector contractor can, however, bring flexibility to the approach of service provision, will normally be able to achieve higher efficiencies and can generally access operating and investment capital.

### **3.2.3 Public/NGO**

In this case the authority would contract with an NGO to provide specific services in the provision of the overall service. Due to the restricted capacity of most NGO's this would be unlikely to extend to the full service provision. This approach, however, has considerable advantages in that it will generally involve local stakeholders and will assist with the building of capacity within the NGO. The negative aspects of this partnership form would be the probable lack of relevant skills and difficulty of the partnership to raise external funding for the on-going work. Problems have also been experienced elsewhere due to the NGO not generally being registered as a legal entity.

### **3.2.4 Public/Community Based Organisation**

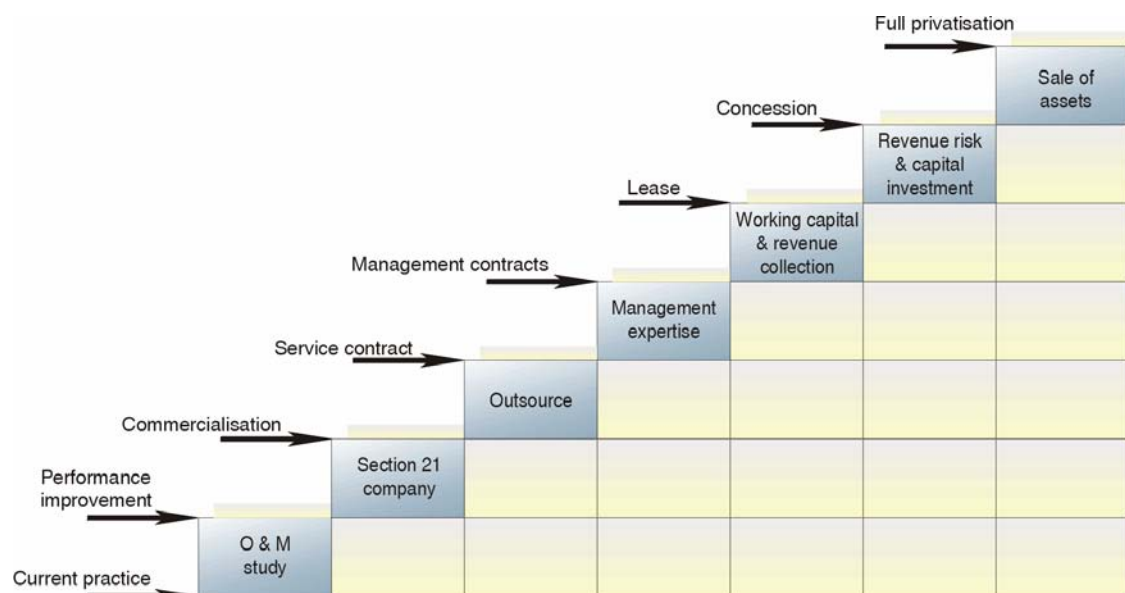
There are already examples of this approach in the area where local communities are managing the distribution and supply of the water, generally supplied from a borehole, to the users in their own area. This generally requires clearly defined communities of a size where communication and consensus can be readily achieved. If it can work, it assists the community by using the local skills and by keeping costs incurred to a minimum. Again this form of partnership does not facilitate the accessing of funding for capital expenditure and experience has shown that it is not always sustainable particularly when the original leaders move on and their successors are not as committed or capable. In some areas where this form of supply has been used there have also been problems of obtaining payment from the communities for services supplied.

## **3.3 Forms of Contract**

The forms of contract discussed in the following sections can generally be applied within any of the forms of partnerships described above. The more sophisticated forms of contract are not, however, likely to be appropriate to the NGO or CBO partnerships.

Each type of contract can either be seen as a independent concept or they can be seen as a progressive method of developing more sophisticated approaches as the capacity of the authority grows with experience.

This concept is reflected in the following diagram with each arrow representing a contract type and the content of the box describing the main difference between one contract and the next:



**Figure 3-1 : Generic MSP Options**

### 3.3.1 Commercialisation

Also known as Corporatisation, this option is aimed at creating a ring-fenced operation which operates in the same way as a private company but which remains fully owned by the authority. The benefits of this approach are that all aspects, which contribute to the provision of the service, are put into the new entity and the staff of the organisation are given more responsibility for the provision of the service. This creates a flexibility of approach, which benefits the organisation and the customer. As with any company, management presents its business plan to the Board of Directors, in this case the Council or its nominated representatives, and is then required to perform against the approved plan.

### 3.3.2 Service Contract

This contract form is generally used to outsource specific elements of a service such as meter reading, equipment maintenance, etc. It is normally a short-term contract, between 1 and 3 years, and the requirements of the contract can be very clearly defined.

### 3.3.3 Management Contract

A management contract is used when there is a need to bring in management expertise into the service provision function. Such contracts are generally for 3 to 5 year duration

and the contractor is responsible for providing the defined service as well for taking management responsibility for such provision.

#### **3.3.4 Lease Contract**

An authority may wish to make a particular facility, or group of facilities available to a contractor against payment of a lease fee and a contract for the supply of a particular service. Such a contract would be for a period in excess of 3 years and the contractor would be responsible for providing all the operating capital including maintenance and possible upgrade costs while the authority would remain responsible for any capital investment required for extension or rehabilitation.

#### **3.3.5 Concession**

A concession contract is normally for a period of 25 to 30 years and the contractor is responsible for providing the specified service as well as for providing all funding required for the necessary upgrades to the system. The requirements of a concession contract would be for the contractor to provide the predetermined service to the standards defined in the contract. The contractor would also be responsible for obtaining the revenue from the customers supplied and taking full risk on his ability to generate the required income.

#### **3.3.6 Full Privatisation**

National policy in South Africa does not support the privatisation of what is an essential basic service. For this reason, the privatisation of the water and sewerage service is not an option. It may, however, be appropriate for non-core elements of the present water service to be privatised where such a service can also provide a service to the private sector or to other authorities. An example of where this has happened elsewhere would be the scientific and laboratory services.

### **3.4 Principles Applicable to All Forms of Contract**

Irrespective of which form of partnership or which form of contract is adopted there are certain principles, which have to be applied.

The first of those is that the procurement process has to be based on all available information being made available to the prospective contractors. As part of this procurement it is also preferred practice that a competitive bidding process be used where the bidders all receive detailed information on the existing conditions and the requirements of the contract. Linked with this is the requirement of a clear bidding document which defines the process to be followed and the information required from each bidder.

The position of the affected staff has to be very clearly spelled out in the terms of any contract. It would be normal to require that any entity which takes over the responsibility for the service provision has to take over all the staff attached to the

existing operation on, at least, the same or similar terms and conditions as they enjoy at present. An alternative approach would be for the staff to be seconded to the appointed operator.

Any contract requires monitoring to confirm that the appointed contractor conforms to the requirements of the contract. Allowance has to be made, therefore, for Council to identify a person or persons who will undertake this task on their behalf. Such a contract will include a mechanism for the necessary costs of the monitoring process to be paid over to Council. This would normally be dealt with as a monthly management fee or a concession fee payable by the contractor to the Council.

The following table depicts the possible combinations of partners and contract types:

	Corporatisation	Service	Management	Lease	BOT	Concession	Privatisation
Private	No	Yes	Yes	Yes	Yes	Yes	Yes
Public	No	Yes	Yes	?	?	?	No
NGO	No	Yes	Yes	No	No	No	No
CBO	No	Yes	Yes	No	No	No	No

“?” - These options require that capital investment be made in the contract. Public bodies have not been able to make such an investment to date. It may, however, be possible for them to work on this basis.

## **4 SHORT LIST OF APPROPRIATE DELIVERY OPTIONS**

In accordance with Section 78 of the Municipal Systems Act, the municipality is obliged to consider the internal mechanism of service delivery before considering any external mechanisms. In the case of Bohlabela, the internal delivery system and the various internal options are therefore considered in the following assessment along with selected external options. This will allow the assessment to take account of all the options available. Should a decision be made that an external mechanism be considered for more detailed assessment, and then the Municipality will have to firstly follow the processes defined in the Act.

The options that have been identified as possibly being appropriate to the challenges facing Bohlabela at this time are described in the following paragraphs.

### **4.1 Water Services Provision by a Department of the District Municipality**

In this option the District Municipality would take transfer of the staff currently employed by DWAF and would appoint additional managerial and support staff to create an efficient and effective water and sanitation service provider department. This department would focus on the technical aspects of the service delivery and would make use of and co-operate with other departments of the district municipality such as human resources, treasury, legal, etc. Financing of the department would come from a combination of a subsidy from DWAF (generally with transfer DWAF will provide a subsidy equal to their cost of running the service for the year prior to transfer and this subsidy will reduce to zero over 5 years), from allocation from equitable share and from a gradually increasing amount of cost recovery.

The department would operate as a normal department of the municipality and would be subject to all the regulations and controls pertaining to other departments. The municipality would be responsible for obtaining grants to cover the cost of all new construction work, would be responsible for training and skills development and would take risk on whether it can generate sufficient income to cover the costs involved.

### **4.2 Local Municipality as Water Services Provider**

While the district municipality would retain its responsibilities as Water Services Authority it could contract with the local municipality to provide the Water Services Provision function. In this option all the staff and facilities (both DWAF and municipal) currently used to provide the service would be seconded or transferred to the local municipality who would also supplement that staff to create an effective organisation. The WSA would remain responsible for fixing tariffs but would be required to take account of the budget and proposals of the WSP in making such a decision. The local municipality as the WSP would be responsible for determining a budget which reflects all costs associated with the service provision (including those of the WSA) and for all billing and cost recovery measures. The full responsibility for maintaining and

operating the system, including working to resolve matters such as dealing with informal connections and ensuring that an acceptable supply is received by all consumers, is then that of the WSP. The WSA would remain responsible, however, for obtaining funding for capital expenditure required for expansion, upgrade and reconstruction of the system. Any costs incurred in respect of funding, or obtaining funding, would form part of the payments to be made to the WSA.

#### **4.3 Partnership between District and Local Municipality**

In this option the district and local municipalities would create a water and sanitation service partnership and the district municipality, as the WSA, would contract with that partnership for it to be responsible for the provision of the service. The partnership would be responsible for all the WSP aspects detailed in the preceding section. The sending of accounts to consumers could either be done directly by the partnership or could be undertaken by one of the municipalities as part of its wider billing process.

In the early stages DWAF would also be a partner, as they would be committing all their existing staff and resources. As the process of transfer took place, however, DWAF would become less involved in the management inputs and the partnership management would take over responsibility.

The partnership would be structured such that the WSA retains ownership of all the assets following transfer from DWAF. The partnership would be run by an advisory board comprising nominees from both municipalities and, initially DWAF, in an agreed ratio as well as external members who would be selected for the particular skills that they can add to the board, e.g., legal, financial, technical, etc.

All the existing staff of DWAF would be transferred into the partnership. The partnership would supplement the staff where necessary through direct appointments and they would also source specialist input from the Retail Water Distribution Project or through the use of appointed specialists. The partnership would be responsible for managing and controlling its own budget within the parameters determined by the advisory board and the WSA.

In order to strengthen its capacity and to benefit from the knowledge and skills of an established water services operator, the partnership could enter into a management contract with a selected operator for it to become an additional partner to support and assist the partnership in providing an effective service. The selected operator could either be from the public or the private sector. If funding for the specific items which require capital expenditure cannot be obtained through normal funding routes then the use of a BOT (Build – Operate – Transfer) contract, either as part of the management contractor's responsibility, or as a separate contract, can be considered.

#### **4.4 Bushbuckridge Water Board as Water Services Provider**

As the existing bulk water services provider for the Bushbuckridge area of the district

municipality, the water board is already established, knows the area, knows the bulk supply systems and has its own managerial and support infrastructure. It also has a vested interest in ensuring that the service provision is undertaken effectively and that a sustainable income base is established as quickly as possible. As a public body answerable to the Minister of Water Affairs and Forestry, as well as being subject to the various national financial regulations, there are controls in place to ensure that whatever they do is always in the public interest and is not being driven by personal gain or profit.

The water board is, however, still a new organisation, which is facing the many challenges of establishing itself and of working to provide a cost effective and continuous water supply to the areas, which it has to serve. It has not yet had adequate time to develop an effective organisation which can achieve its primary task and it has not yet had time to indicate that it would be able to add the even more difficult task of providing a reticulation and supply service to its already considerable challenge.

#### **4.5 Management Contract with Public or Private Organisation**

It would also be an option for the district municipality as the WSA to enter into a management contract with either a public or a private water organisation to undertake all the responsibilities of a Water Services Provider. The organisation would be selected through a properly structured procurement process and would be subject to a detailed performance contract. The appointed WSP would be given use of the facilities currently used to provide the water service and the existing DWAF staff would be transferred or seconded to it. It would, however, be required to supplement that staff with experienced operators of its own and it would be required to implement a training and reorganisation aimed at developing the existing personnel into an effective team.

While this approach would probably provide the best results in the shortest possible time it has certain constraints. The first of these is that the appointed organisation would require to be paid from the beginning. While certain funds may be available through the DWAF subsidy these are unlikely to be sufficient. Secondly, this outsourced approach does not contribute to building of capacity within the municipalities. At the end of the contract the organisation walks away or is re-appointed, no benefit has therefore been achieved within the municipalities themselves.

#### **4.6 Partnership with NGO/CBO**

This approach would involve setting up a contractual relationship with one or more NGO or community organisation. Certain NGO's, such as Mvula Trust and AWARD, are well established organisations with experience in working in this area as well as with skills relevant to the challenges of this service provision. The extent of the challenge facing the appointed partner for the whole of the service area is, however, considered to be too great for any NGO or community organisation to accept.

For the above reason such organisations are not seen as being able to be considered as possible partners for the provision of the service as a whole. They do, however, offer considerable opportunities to be involved as part of the overall approach either playing a very specific role in one aspect of the service provision (e.g., Mvula Trust in



respect of sanitation and hygiene awareness campaigns) or taking responsibility for local supply systems (generally a borehole supplied system to a community). Whichever overall approach is eventually adopted, therefore, should include as many opportunities as possible for the involvement of such organisations.

## **5 ANALYSIS OF ALTERNATIVE DELIVERY OPTIONS**

In this section the various factors, which impact on the above options, shall be discussed.

### **5.1 Ability to raise capital**

None of the defined options, other than the Build Operate Transfer (BOT) sub option, have the ability to raise funding for new or expanded facilities. The responsibility for this will remain with the WSA, which, at least initially, will have to access grant money for these matters. A long-term objective of the WSA has to be to develop the financial structure of the service to an extent that it will eventually be able to borrow funding for capital expansion.

### **5.2 Ability to effect cost recovery**

Experience has shown that the more separate an organisation is from the community or municipality the better levels of cost recovery can be achieved. On the basis of the above options therefore the rating of each option on levels of cost recovery, from worst to best, will typically be:

- ◆ NGO / CBO
- ◆ Municipal department
- ◆ Municipal partnership
- ◆ Water board
- ◆ Municipal partnership with management contract
- ◆ Private sector management contract

### **5.3 Service efficiency and technical capacity**

All the options, which use the municipalities and NGO/CBOs as a base, would be commencing from a low level of service efficiency and technical capacity. In the early stages they could add very little to the existing competencies of the DWAF operation. The water board option could hopefully add a limited amount of additional skills but it would only be where an outside organisation was brought in that any immediate and appreciable improvements in this regard could be achieved. Such an outside organisation would obviously have been selected on the basis of its available skills and experience.

### **5.4 Ability to expand service coverage**

Major expansion of service coverage requires capital investment. As stated earlier the only way that this can be accessed in the immediate future would be through grant funding or a BOT type of agreement for clearly defined expansion work. A well-organised, technically efficient, organisation could, however, use its expertise to optimise the existing infrastructure to its fullest extent and increase the number of

people served from the existing infrastructure.

### **5.5 Longer term effect on tariffs**

Tariffs will always stay under the control of the WSA which is the only body authorised to make such decisions. The critical effect on the tariffs, therefore, is the ability of the WSP to contain costs and to be able to provide the level of services required on the most cost effective basis. The experience of an outside organisation and its profit driven approach to maximise productivity gives it a benefit in this regard. Provided that the contract clearly defines the deliverables, the effect of the profit factor can be offset by the levels of efficiency. The partnership approach as well as the Water Board, as corporatised units, should be able to achieve levels of cost controls close to that of the private body while experience is that the municipal approach produces the lowest levels of productivity and cost responsiveness.

### **5.6 Risks to various parties**

The levels of risk will be highest with an outside organisation. The WSA will be at risk of considerable financial and legal recourse if there is default on the contract and the outside organisation will perceive entering in to such a contract to be high risk due to the lack of an established financial basis for the service in the area.

The departmental approach will be at the lowest level of risk due to the direct control exercised by the district municipality.

The levels of risk in the remaining options will lie somewhere in between these two.

### **5.7 Accountability and governance**

Options based on the municipalities will have the highest levels of accountability and governance due to the direct involvement of the municipal structures in their operations. Other public bodies such as the water board have their own levels of accountability and governance within their own structures. The accountability and governance in respect of the private, NGO and CBO options are entirely dependent on the terms of the contract entered into between the different parties.

### **5.8 Monitoring required**

The highest level of monitoring required will be in respect of the private sector option followed by the NGO and CBO options. Thereafter it will be the Water Board and the partnership arrangement with the municipal options at the lowest level of monitoring.

### **5.9 Effect on staff**

The issue relating to current personnel involved in the provision of the water and

sanitation service, is an extremely sensitive area and should be dealt with accordingly. Both the Labour Relations Act and the Framework Agreement for Restructuring Municipal Service Provision between SALGA and COSATU provide legal and process guidelines in this respect. The fundamental position is that staff should be involved in the process and should not be placed in a worse position as a result of the option selected.

The current practice is that where a new entity is contracted to provide the service, this entity should take over the current staff related to that service on terms and conditions to be negotiated - with the caveat that they should not be worse off. Given the importance of this aspect it is also practice to include in the contract with such an entity, clauses that obligate the entity to develop train and empower these staff.

Options could be considered to second staff to the entity to avoid some of these complex issues but this will usually not provide the entity with sufficient executive authority to drive a new performance based culture. Arrangements in respect of pension and provident fund rights and benefits as well as medical aid funds would have to be agreed with staff representatives and clearly spelled out in the contract.

More important, however, is the ongoing involvement of the unions, and staff in the process leading to a decision on the future model of service provision. It is critical that these key stakeholders be fully involved in the process and that they be given reasonable opportunity to contribute towards the design of a sustainable solution.

#### **5.10 Attractiveness to private operators and investors**

The outside organisation option will be the most attractive to private operators and investors due to their self-interests, the potentially higher levels of efficiencies, which can be achieved, and to the ability to provide company guarantees. All other options would be attractive to private sector operators to provide assistance in all or selected areas of the service. It is unlikely, however, that private sector investors would be prepared to provide commercial financial support to the partners involved in any of the other options.

#### **5.11 Ability to provide an improved service**

Due to the fact that it would be selected on the basis of its proven track record and levels of expertise, the outside organisation will provide the best opportunity for the service to be improved in both the short and long term. Such an organisation would have experienced people and proven systems to be able to quickly identify the interventions required and to be able to carry them out.

The options, which would have the next best level of ability in this regard, would be the partnership approach and the Water Board. Both these groups would be able to provide certain levels of skills and experience as well as an understanding of the framework within which the service provision had to happen.

The lowest rated options in this regard would be the municipal approach and the NGO/CBO option. The latter, however, would definitely be able to provide improved services within certain limited geographic areas.

## 6 STAKEHOLDER CONSULTATION

On 5 November 2001 a full day workshop was held in Thulamahashe to consider the different options presented in Section 4. The workshop attendees represented the following organisations:

- ♦ Bohlabela District Municipality
- ♦ Bushbuckridge Local Municipality
- ♦ Maruleng Local Municipality
- ♦ Ehlanzeni District Municipality
- ♦ Bushbuckridge Water Board
- ♦ Department of Water Affairs (National, Regional and Local)
- ♦ Department of Provincial and Local Government (Regional and Local)
- ♦ AWARD (Locally based NGO)
- ♦ Retail Water Distribution Project

Copies of the attendance register and the opening speech of the Executive Mayor of the District Municipality are included in the Annexures for record purposes.

In the first part of the workshop, the attendees were taken through the process followed by this report in Sections 1 to 4. Following each section, time was given for questions to be asked in an effort to clarify the understanding of everyone on the matters presented and the subjects being discussed. Attendees were then allocated in to 4 working groups and given a work sheet comprising the matters assessed in Section 5. They were asked, in these groups, to discuss these matters and to allocate their ratings to each of the factors identified. The workshop concluded with each group giving a report back on their views and their ratings.

Although a rating system was used to stimulate discussion and involvement in the process, this was not a designed statistical analysis system as no weightings were applied to each of the factors. The detailed numbers coming out of the ratings have not, therefore, been used in this assessment. The indicators which came out of the results and the underlying thinking behind such indicators have, however, been used to influence the consideration of the options by the professional team.

## 7 RECOMMENDATIONS

### 7.1 Recommended Option

Taking account of the experience of the project team and of the views expressed in the workshop it is concluded that the most viable method for the District Municipality to fulfil its responsibility as the Water Services Authority is to adopt the option of creating a Water Services Provider formed as a partnership between Bohlabela District Municipality and Bushbuckridge Local Municipality.

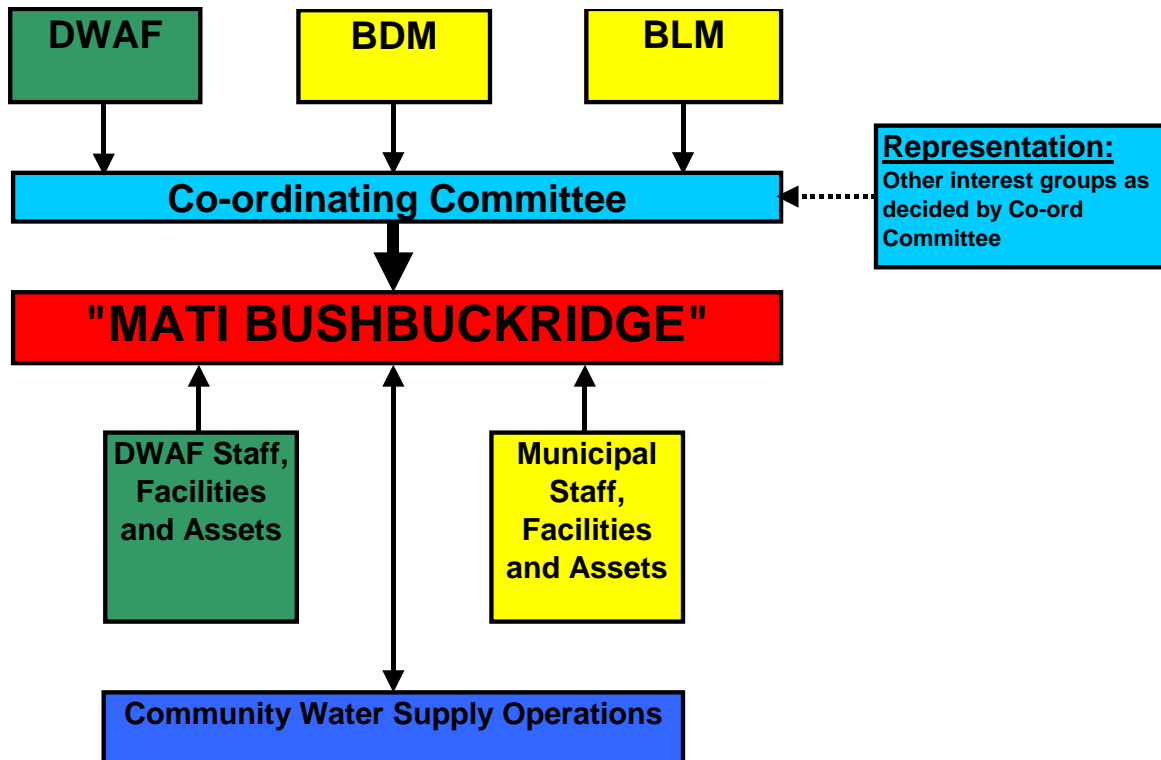
The reasons for making this recommendation are as follows:

- ◆ This option brings the District and Local Municipalities into partnership with each other and creates a joint commitment to serve the people of the area in respect of water and sanitation matters.
- ◆ It will make use of the available skills, capabilities and resources of the two levels of municipal management.
- ◆ Starting from the basis of the existing DWAF service delivery team it will allow the creation and growth of the capacity within the municipalities to serve its own area and people.
- ◆ It is an internal delivery mechanism in terms of the Municipal Systems Act.
- ◆ It will be directly responsive to the overall direction given to it by district and local councillors yet it will be flexible enough to adapt to changes of priority when needed.
- ◆ It will be an organisation focussed on providing an improved delivery of water and sanitation services while working towards the creation of a sustainable service.

While the main partners in this option are the municipalities the following other parties would play a critical role in the process:

- ◆ DWAF – who would initially be a partner, would provide its staff and resources to form the basis of the service provider and would eventually transfer its overall responsibility for the service provision, together with the relevant staff and facilities, to the partnership.
- ◆ Bushbuckridge Water Board – who, as the Bulk Water Service Provider, would be a key business partner in supplying bulk water, assisting with the improvement of the availability of water and working with the partnership to optimise the cost of water and to develop a balanced sustainable financial basis for both organisations.
- ◆ NGO/CBO Groups – these groups would, where appropriate, be used to assist and support the partnership in providing services to specific communities or areas.

The structure of the partnership as proposed would be as shown in the following diagram:



## 7.2 Reasons for Not Favouring Other Options

While the other options all had many aspects in their favour the following is a summary of the reasons for not selecting them as the favoured option.

### 7.2.1 Departmental Option

This would be second ranked option but was considered to lack the “inclusiveness” of the municipal partnership. It also lacked the benefits of a more localised approach to service provision and the opportunity to make use of all the resources of the area.

### 7.2.2 Local Municipality

For very much the same reasons given in 7.2.1 it was considered that this option did not offer the same level of benefit of the partnership option

### 7.2.3 Bushbuckridge Water Board

It is considered at this moment in time that the priority of the Water Board has to be to



ensure a cost effective and consistent bulk supply to the area. It is also not considered that their present level of expertise in the area of reticulation services can add value to the challenges of the area.

#### **7.2.4 Outside Organisation**

While this option would immediately bring high levels of expertise to the area, it is not considered that the financial basis of the service can support this approach at this time.

#### **7.2.5 NGO/CBO**

As already mentioned it is considered that NGO or CBO groups can play a role as part of a WSP but that they do not have the capacity to undertake the complete WSP responsibility on their own.

### **7.3 Way Forward**

Should the municipality accept the above recommendation then the way forward would consist of:

- ◆ Communication of the decision to the Regional office of the Department of Water Affairs with a request for their support and participation.
- ◆ The establishment of a Joint Policy Committee consisting of the DWAF Regional Director and his Transfer Task Team Manager together with the Mayors and Municipal Managers of the Bohlabela District Municipality and the Bushbuckridge Local Municipality.
- ◆ Direction to be given by this committee to the Water Services Committee to commence developing the details of the proposed structure including drafting the necessary partnership agreements and establishing the organisational arrangements.
- ◆ RWDP be requested to assist by drafting a business plan for the proposed partnership for consideration by the Joint Policy Committee.

**ANNEX 1**  
**WSP WORKSHOP ATTENDANCE REGISTER**

**ANNEX 2**  
**WORKSHOP PARTICIPANTS**

**ANNEX3**  
**SPEECH : BOHLABELA EXECUTIVE MAYOR**